

## Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 ERDA-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 FPC-01 H-02 INR-07 INT-05

L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06 SAM-01

OES-06 SP-02 SS-15 STR-04 TRSE-00 ACDA-07 FEA-01

ITC-01 /103 W

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P 032230Z DEC 76

FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC PRIORITY 1823

INFO ALL CONSULATES IN CANADA

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E.O. 11652: N/A

TAGS: ENRG, ETRD, CA

SUBJ: STATE OF PLAY ON CANADIAN HEAVY OIL EXPORT POLICY

REF: (A) OTTAWA 4710; (B) OTTAWA 4734

1. SUMMARY. NATIONAL ENERGY BOARD (NEB) HAS AUTHORIZED SEPARATE LICENSING OF HEAVY OIL EXPORTS AS INTERIM STEP TO AID THIS TROUBLED SECTOR OF CANADIAN PETROLEUM INDUSTRY. FINAL DECISION ON WHAT MEASURES THE GOC SHOULD TAKE TO AID THE INDUSTRY-- PREVIOUSLY EXPECTED AT YEAR'S END -- HAS APPARENTLY BEEN DELAYED UNTIL SPRING. ONE POSSIBLE MEASURE -- AUTHORIZATION OF FREE TRADE IN HEAVY OIL -- RECIPROCAL ACTION BY USG TO EXEMPT HEAVY OIL FROM FEA ALLOCATION PROGRAM. END SUMMARY.

2. RESPONDING TO A QUESTION IN THE HOUSE OF COMMONS ON NOVEMBER 2, ENERGY, MINES AND RESOURCES (EMR) MINISTER ALASTAIR GILLESPIE ENDORSED INDUSTRY REQUESTS FOR SPECIAL TREATMENT OF HEAVY OIL EXPORTS AND SAID THAT  
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THAT HEAVY OIL PRODUCERS NEED AN ASSURED EXPORT MARKET IN

ORDER FULLY TO DEVELOP THIS RESOURCE. HE CITED THE 25,000 BARREL PER DAY TIED QUOTA FOR HEAVY OIL AS A STEP IN THE RIGHT DIRECTION. THIS QUOTA ESTABLISHED BY THE NEB IN NOVEMBER REQUIRES BUYERS TO TAKE 25,000 BARRELS PER DAY OF HEAVY CRUDE BEFORE THEY WOULD BE ELIGIBLE FOR ALLOCATIONS OF LIGHT OIL. GILLESPIE ADDED THAT OTHER PROPOSALS BY INDUSTRY ARE UNDER CONSIDERATION BY THE NEB WHICH HE SAID WAS DUE TO REPORT ITS RECOMMENDATIONS "WITHIN WEEKS, CERTAINLY BY THE END OF THE YEAR."

3. AS AN INTERIM MEASURE PENDING PUBLICATION IN THE NEB REPORT AND RECOMMENDATIONS BASED ON OIL SUPPLY HEARINGS CONCLUDED IN LATE OCTOBER, NEB ACTED ON ONE OF THE INDUSTRY PROPOSALS MENTIONED BY GILLESPIE AND ANNOUNCED SEPARATE LICENSING OF HEAVY OIL EXPORTS ON NOVEMBER 23 (SEE REF-TEL 4710).

4. COMMENT: TIMING AND NATURE OF FURTHER POLICY MOVES BY GOC ON HEAVY OIL ARE NOT CLEAR AT THIS TIME. CONTRARY TO GILLESPIE'S STATEMENT, NEB SECRETARY BRIAN WHITTLE TOLD EMBOFF ON DECEMBER 1 THAT BOARD'S REPORT ON HEAVY OIL WILL NOT BE AVAILABLE UNTIL SPRING. WHITTLE WOULD NOT COMMENT ON WHAT FURTHER OPTIONS NEB MIGHT BE CONSIDERING BEYOND SEPARATE LICENSING. WHETHER THE BOARD WILL GO AS FAR AS RECOMMENDING COMPLETE FREE TRADE IN HEAVY OIL (REMOVAL OF QUOTAS AND EXEMPTION FROM THE EXPORT TAX) IS OPEN TO SPECULATION. FEASIBILITY OF SUCH A POLICY SHIFT BY GOC WOULD REQUIRE RECIPROCAL ACTIONS AND ASSURANCES BY USG, STARTING WITH AMENDMENT OF FEA REGULATIONS TO EXEMPT HEAVY OIL FROM ALLOCATION PROGRAM. AS DEPARTMENT IS AWARE, GOC HAS PUSHED HARD IN BILATERAL TALKS FOR SUCH ASSURANCES AND HAS SUGGESTED POSSIBLE LINKAGE BETWEEN HEAVY OIL EXPORTS AND EXPANSION OF EXISTING OIL SWAP ARRANGEMENTS FOR CANADIAN-DEPENDENT REFINERIES IN THE NORTHERN TIER. (SEE ALSO EMR DEPUTY MINISTER MACNABB'S STATEMENT ON THIS SUBJECT IN PARA 4B REFTTEL B.)  
ENDERS

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## Message Attributes

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